STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

June 19, 2008 - 10:40 a.m.
Concord, New Hampshire

RE: DE 08-072
GRANITE STATE ELECTRIC COMPANY
d/b/a NATIONAL GRID:
Fiscal Year 2008 Annual Reliability Enhancement and Vegetation Management Plan Results and Reconciliation Filing.

PRESENT: Chairman Thomas B. Getz, Presiding
Commissioner Graham J. Morrison
Commissioner Clifton C. Below

Catherine Marcellos, Clerk

APPEARANCES: Reptg. Granite State Electric Company d/b/a National Grid:
Alexandra E. Blackmore, Esq.
Amy G. Rabinowitz, Esq.

Reptg. PUC Staff:
Suzanne G. Amidon, Esq.

Court Reporter: Steven E. Patnaude, LCR No. 52

I N D E X

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E X H I B I T S

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P R O C E E D I N G S

CHAIRMAN GETZ: Okay. Good morning, everyone. We're going to open the hearing in docket DE 08-072. On May 15, 2008, National Grid submitted its Fiscal Year 2008 Annual Reliability Enhancement and Vegetation Management Plan Results pursuant to a Settlement Agreement approved in docket DG 06-107. Among other things, National Grid's -- the report filed contained actual spending and operation and maintenance activities for Fiscal Year 2008 and a request for a capital investment allowance to be included in distribution rates effective July 1, 2008. An order of notice was issued on May 22nd setting the hearing for this morning.

Can we take appearances please.

MS. BLACKMORE: Good morning. My name is Alexandra Blackmore and I'm appearing on behalf of National Grid. With me today is Amy Rabinowitz, also with National Grid.

CHAIRMAN GETZ: Good morning.

CMSR. MORRISON: Good morning.

CMSR. BELOW: Good morning.

MS. AMIDON: Good morning. Suzanne Amidon, for Commission Staff. With me today is Steve

Mullen, who is the Assistant Director of the Electric Division.

CMSR. BELOW: Good morning.

CMSR. MORRISON: Good morning.

CHAIRMAN GETZ: Good morning. I see we have a panel ready to go. Are there any preliminary matters, before we hear from the witnesses?

MS. BLACKMORE: I'd like to mark a few exhibits for identification. The first is the May 15th filing of our Reliability Enhancement Plan and Vegetation Management Plan results. And, the second exhibit would be the Joint Testimony of Dr. Catherine McDonough and Peter Altenburger. And, the third exhibit would be the Direct Testimony of Mike Laflamme.

CHAIRMAN GETZ: Okay. They will be marked as "Exhibits 1", "2", and "3" respectively.

(The documents, as described, were herewith marked as Exhibits 1, 2, and 3, respectively, for identification.)

(Whereupon Catherine T. McDonough, Peter F. Altenburger, Michael D. Laflamme and Jeffrey M. Carney were duly sworn and cautioned by the Court Reporter.)

CATHERINE T. McDONOUGH, SWORN

PETER F. ALTENBURGER, SWORN

MICHAEL D. LAFLAMME, SWORN

JEFFREY M. CARNEY, SWORN

DIRECT EXAMINATION

BY MS. BLACKMORE:

Q. Dr. McDonough, would you please state your full name and business address.

A. (McDonough) Dr. Catherine T. McDonough, 300 Erie Boulevard, Syracuse, New York.

Q. And, what is your position with National Grid?

A. (McDonough) I'm the Director of Regulatory Compliance for the Electric Distribution Operations.

Q. And, what are your duties and responsibilities in that position?

A. (McDonough) I'm responsible to make sure that our regulatory filings in the Electric Distribution Operations area are filed on time and consistent with expectations, and that our capital spending and spending are consistent with achieving the reliability targets that we set.

Q. Mr. Altenburger, would you please state your full name and business address.

A. (Altenburger) Peter Altenburger, 1125 Broadway, Albany, New York.

Q. And, what is your position with National Grid?
A. (Altenburger) I am the Manager of the Asset Program Development Group within National Grid, and I manage the overall REP program for out entire service territory.
Q. Mr. Laflamme, would you please state your full name and business address.
A. (Laflamme) Certainly. My name is Michael D. Laflamme. My business address is 201 Jones Road, Waltham, Massachusetts.
Q. And, what is your position with National Grid?
A. (Laflamme) I am Vice President of Electricity Pricing and Regulation.
Q. And, what are your duties and responsibilities in that position?
A. (Laflamme) Myself and my staff are responsible for electric generation rates in New England and New York.
Q. Mr. Carney, would you please state your full name and business address.
A. (Carney) Jeffrey M. Carney, 407 Miracle Mile, Lebanon, New Hampshire.
Q. And, what is your position with National Grid?
A. (Carney) I am the System Arborist in the Asset Strategy Department.

Q. And, what are your duties and responsibilities in that position?
A. (Carney) Maintenance and enhancement of the Vegetation Management Program.
Q. Mr. Carney, although you did not submit prefiled testimony, are you familiar with the Reliability Enhancement and Vegetation Management Program that -- and the filings that the Company made in this proceeding?
A. (Carney) Yes.
Q. Dr. McDonough and Mr. Altenburger, I believe that you have in front of you what's been marked as "Exhibit 1", which is the May 15th reconciliation filing. Do you recognize that?
A. (Altenburger) Yes.
A. (McDonough) Yes.
Q. And, I believe you also have in front of you what's been marked as "Exhibit 2", which I believe is your joint testimony. Do you have that in front of you?
A. (McDonough) Yes.
A. (Altenburger) Yes.
Q. Do either of you have any corrections to make to your testimony at this time?
A. (McDonough) No.

A. (Altenburger) No, I don't.

Q. Do you both adopt the testimony as your own?

A. (McDonough) Yes.

A. (Altenburger) Yes.

Q. Mr. Laflamme, I believe you have in front of you what's been marked as "Exhibit 3"?

A. (Laflamme) I do.

Q. You do. And, do you have any corrections to make to your testimony?

A. (Laflamme) Yes, I do.

Q. Could you describe those corrections?

A. (Laflamme) Certainly. Exhibit 1 of my prefiled testimony, which was intended to be an ease of reference item, which is a copy of the May 15th Reliability Enhancement Plan filing. On Exhibit -- I mean Attachment 1, Page 2 of that Exhibit 1, on Line 1 there was a printing problem, and there are a row of inappropriate items here. And, I would just like to read the numbers on that for the columns titled "Fiscal Year 2008" through "Fiscal Year 2012". And, I'd also like to point out that the corrections do not affect the calculation at all. It was purely a printing issue. And, the numbers that I'm going to enter into the record today are exactly the same as were

originally filed in the May 15th report. So, in the "Fiscal Year 2008" column, on Line 1 the amount should be "2,169,258"; in "Fiscal Year 2009, the number should be "1,473,832"; in "Fiscal Year 2010", the amount should be "1,360,000"; "Fiscal Year 2011", the same amount, "1,360,000"; and for "Fiscal Year 2012", "1,360,000".
Q. Do you adopt your testimony as your own?
A. (Laflamme) I do.
Q. I'd like to begin with Dr. McDonough and Mr. Altenburger. Dr. McDonough, can you describe how the Reliability Enhancement Program and the Vegetation Management Program was designed to work for Fiscal Year 2008?
A. (McDonough) Sure. As part of the merger settlement plan, the Company agreed to implement a Reliability Enhancement Plan and a Vegetation Management Plan for each fiscal year effective after the date of the merger. The purpose of these plans was to restore reliability to historical performance levels prior to 2005. The Reliability Enhancement Plan included several components. One, a plan to do increased inspection and maintenance on our system. It also included a targeted program to improve feeders that

were not performing well. We call that our "Feeder Hardening Program". It also included increased levels of replacement of assets. And, again, there was an augmented Vegetation Management Plan.

The way that it was designed to work in most fiscal years is that the Company would put together a plan, file it in February, and it would be reviewed by Staff, and then we would implement for the following fiscal year, which would begin in April. Things worked differently in 2008 for two reasons. One, we were still -- the merger rate or the merger settlement plan was underway or, excuse me, the Reliability Enhancement Plan and the Vegetation Management Plan for Fiscal Year '08 were already underway when we were in the process of settling on the merger settlement plan. So, the procedure where you filed a report that was reviewed by Staff, that was -- it was different in Fiscal Year '08.

Another reason it was different is that we were very interested in accelerating our spending to improve reliability. So, we had elevated spending levels in Fiscal Year 2008 as well. So, what we ultimately agreed to was that we would -- we agreed to spend $1.95 million in Fiscal Year 2008 for O&M

activities. And, the way it worked was that, if we spent less than 1.95 million in Fiscal Year '08, the difference would be added to the base level of O&M spending for Fiscal Year '09. And, if we spent more than 1.95 million, the Company would absorb that difference for Fiscal Year '08.

The Company was also -- The Company also had capital spending associated with the REP, and we were -- we settled on a spending level of 950,000 for Fiscal Year 2008. And, the agreement specified that that amount could be -- that the Company could petition for recovery in rates of that amount of incremental capital spending associated with the Reliability Enhancement Plan.

The way things worked out in -- in Fiscal Year 2008 was that we actually spent $2.169 million on O&M activities, which was above the 1.95 million for Fiscal Year '08, which meant that the Company absorbed that difference. We also spent above the $950,000 budget for capital in that year. We actually spent 1.358 million in Fiscal Year '08 on capital. But, again, the filing that we made on May 15th, we -- we were seeking a rate adjustment based on the $950,000 that was agreed to as part of the

settlement plan.
Things work a little different going ahead in 2009. In Fiscal Year 2009, we have already filed a plan for Fiscal Year 2009. In that plan, we, as part of that plan, we specified that we would be spending I believe it is $1.47 million in O&M for Fiscal Year '09. That is somewhat above the 1.36 million that will be considered as part of base O&M expenditure. So, the Company will seek recovery of that additional O&M expenditure for Fiscal Year '09. In addition, in Fiscal Year '09, we agreed on a spending level for capital of $500,000, which we will seek to recover through rates in the May 15th filing next year, in 2009.
Q. And, can you give, for the record, what the Company's reliability performance during 2000 -- calendar year 2007, how it compared with the Company's performance relative to its calendar year 2006 performance, which, you know, was obviously before the period of this Settlement Agreement, but --
A. (McDonough) Right. Reliability has improved quite well. Looking at the numbers of the SAIFI number for 2006, which is the number of customer interruptions divided by the number of customers served. That number

for 2006 was based on the PUC definition, in terms of which storms would be excluded. It was 2.72. And, the comparable number for 2007 was 1.96. Okay, so there was almost a 30 percent drop in that number. The SAIDI measure, which is the number of customer minutes interrupted, divided by the number of customers served. In 2006, that number was 264 minutes, and that dropped to 228 minutes in 2007. So, that's a reduction of about 14 percent.

Q. Mr. Altenburger, can you describe the Reliability Enhancement Program activities that were carried out during Fiscal Year 2008?

A. (Altenburger) We performed feeder hardening activities on two separate feeders, for a total of 79 circuit miles. We installed 9 reclosers. We replaced 50 poles. And, we replaced 450 potted porcelain cutouts.

Q. And, how does the Company select the feeders that it targets for the feeder hardening activity?

A. (Altenburger) Okay. We collect five years' worth of reliability data for all the feeders within New Hampshire. And, then, we focus on deteriorated equipment and lightning performance. And, based on those two criteria, we give a rank. And, the rank takes into account the number of customers on the feeder, the number of customer minutes interrupted per event, the dollars billed to CMI, which basically equates to how much money we predict that we would need to spend to correct the problems. And, then, we have a deteriorated equipment rank and the lightning rank, we add the two together and we come up with a prioritized list.

Q. Thank you. I'd like to turn to Mr. Laflamme. Mr. Laflamme, can you please summarize your testimony?

A. (Laflamme) Certainly. My testimony relates to the revenue requirement associated with the completion of the Fiscal Year 2008 REP and VMP Plan. And, if I, at the risk of being redundant, I just want to cover what Dr. McDonough went over a little bit, from a revenue requirement perspective, and just put it into context of what it is we're actually seeking in dollars and cents here. The REP Program is a capital spending program, and by its definition that means it's a permanent revenue requirement impact. In Fiscal Year 2008, the targeted spending level was 950. So, at the beginning of plan, there was no guarantee of any rate adjustment. What was agreed to in the merger settlement was that, if the Company spent up to $950,000 on capital investments of incremental nature for Reliability Enhancement Programs, it would be allowed to petition the Commission for the revenue requirement recovery of that amount. To the extent that the Company spent more than 950, there was no -- there was no revenue requirement allowance for the spending above the originally agreed upon limitation.

The Vegetation Management Plan is an O&M item. It's an expense item. And, by definition, that's a single year revenue requirement impact. The ramifications of the base level of O&M are that, in the first year, $1,950,000, and in the next four fiscal years, $1,360,000. The assumption is that that's the amount of O&M expenses that are being recovered or being covered in the Company's current base rates.

So, what happens is, each year, in February, the Company submits a report to Staff and other intervenors, has discussions about an appropriate level for spending both on the capital side and the O&M side. As Dr. McDonough described in her testimony a moment ago, for Fiscal Year 2009, the amounts for capital were a limit of up to $500,000. Now, that does not mean that the Company is guarantied revenue requirements of any amount. The Company actually has to go out, spend up to $500,000 on capital improvements for reliability enhancement purposes. Then, we come back after the fact, calculate the revenue requirement of that capital amount and go through this process again.

On the O&M side, we've got kind of an initial support to spend up to $1,470,000 or so on expense. Because our base rates are deemed to include only 1.36 million, the incremental amount would be available for incremental revenue recovery, but only to the extent that we come back next year and the Company proves that it spent up to -- it spent the full 1.47 million. If it only spends 1,360,000 on vegetation expense activities, there will be no incremental recovery for that.

So, in my -- well, it's attached again as Attachment 1 to my testimony, is the original May 15th submission on the Reliability Enhancement Plan and Vegetation Management Plan. And, in that document, Attachment 1 represents the revenue requirement for both the REP and the VMP.

For illustrative purposes, I did show a full five-year representation of how both the capital investment -- the REP capital investment piece and the VMP expense piece would operate with certain assumptions. We're here discussing the Fiscal Year 2008 plan, which are actual data. The Fiscal 2009 data represents the amounts that have been agreed to in our initial discussion with Staff and intervenors. So, you'll see that on the REP plan it's $500,000 is the cap. So, the assumption is that, if the Company spends $500,000, that's what the revenue requirement will look like in the second year. And, for the VMP Plan, the Vegetation Plan, we assumed that the Company would spend up to its maximum allowed 1.47 million, just to show how that would also flow through from a rate adjustment perspective.

And, if you could turn your attention to Page -- to Attachment 1, Page 3, I can I think very quickly walk you through what's happening. On Line 36 of that attachment, you see a revenue -- an annual revenue requirement of "165,840". That is the amount that the Company is requesting to be adjusted in rates effective July 1st. On the -- Because we were allowed up to -- because the allowance in the first year was what was expected to be recovered in base rates, there was never any assumption of a rate adjustment for the VMP Plan in the first fiscal year. The only rate adjustment that could have happened in the first year is, had the Company spent less than 1,950,000, actually there wasn't a rate adjustment, we would have carried that under recovery over to the next year. And, so, we would have to spend more than 1,360,000 in the next year. But, as it turned out, we did spend more than -- we did spend 1,950,000, in fact, we spent more than that, so there was no carryover of budget amounts for the second year.

If we look again at Page 3 of that Attachment 1, again, as I mentioned a moment ago, we assumed that the Company would spend an incremental 500,000 for Fiscal Year '09. And, again, as I mentioned, because a capital investment is a permanent rate item, what this does is it calculates now the second year revenue requirement on a cumulative amount of 1,450,000, the sum of the 950 spent in year one, plus the 500,000 spent in year two. And, again, because, and as you go down you'll see that on Line 36, there is a cumulative revenue requirement of $246,000 in year two. If we move down to Line 40, because there is a revenue -- there is a regulatory lag, we're only asking for the rate to become effective after the fact. So, you see that, in Fiscal Year '09, the first year revenue requirement will become effective, $165,000.

In Fiscal Year '010, again, assuming we spend $500,000 on capital, our total revenue requirement would be 246,000, but we would have rates that are already recovering 165,000. So, the required rate change in Fiscal Year '010 would simply be the incremental amount above that. And, this schedule just carries that criteria forward, assuming we spend at the same level as was initially agreed to in Fiscal Year -- for Fiscal Year 2009. And, again, we'll be back in February of 2009 with a plan to budget for what we would like to spend in Fiscal Year 2010. Hopefully, we'll continue to see improvements in reliability. And, to the extent that there's an appetite to see even better improvements, maybe there's an agreement to spend even more.

If we move now to Page 2, I can quickly go through the VMP side of this. And, I will apologize for the printing issue on the first page, but hopefully you wrote the numbers down as I was reciting them. But, in the first year, we actually spent 2,169,000. That's on Line 1. On Line 2, our limitation for recoverable O&M was 1,950,000. So, what happens was, we overspent. And, as Dr. McDonough mentioned earlier, any overspending from the budgeted level or the O&M

limitation is on the -- is on the Company's dime. So, consequently, because we spent at least the 1,950,000 that was embedded in our current rates, there was no rate adjustment or no carryover adjustment to be made in the first year. For Fiscal Year 2009, we've got an agreement which allows us to spend up to 1,473,000, which happens to be $113,000 more than the 1,360,000 base amount that we had agreed to was embedded in our base rates in our merger settlement plan. So, consequently, if you go down the column, on Line 9, you see a total revenue requirement of "$113,000", and that's simply the incremental amount between the 1,473 and the 1,360. That would be implemented in the following fiscal year or the following July 1st. So, you actually see a revenue adjustment of that $113,000.

For the purposes of this schedule, the assumption is that, for the following three fiscal years, our agreed to expense spending goes back to the 1,360,000, the amount that's in base rates. I did it that way so that you could see that the O&M adjustments are not enduring, they're not permanent. So, assuming that, in Fiscal Year 2010, we've got an agreement to spend only the 1,360,000 that's in current rates, and we do spend that, you have an effective rate reduction, because the 113,000 billed in the prior year expires.

And, on Page 1, which is simply a recap of both of those individual items, it really just brings the revenue requirement, which is, as you can see on Line 1, the initial increase in Fiscal Year 2009, followed by a decrease of that amount when it expires in 2010. And, on the REP Capital Program, you see incremental amounts, as detailed on Page 3 of that attachment.

Q. And, can you describe what would happen if the Company didn't spend the entire Reliability Enhancement or O&M -- I'm sorry, the O&M component in a given year?

A. (Laflamme) Thank you. I should have made that clear. Again, because the assumption is that, in each of the years beyond the current year, there is an assumption that the Company has 1.36 million in base rates. To the extent the Company only spends a million dollars on Vegetation Management, this calculation would provide a rate credit of $360,000.

Q. I believe you covered how you calculated the revenue requirement. So, could you describe what the actual bill impact is associated with the proposed rate increase for the capital?

A. (Laflamme) Yes. As indicated in my testimony at Page

10, and as detailed in Attachment 3 of the original May 15th filing, again, attached to my testimony as Exhibit 1, for a residential customer using 500 kilowatt-hours, the total bill increase is 14 cents per month, or 0.2 percent. For the average residential usage customer or a customer using 673 kilowatt-hours, the total bill increase would be 20 cents, again 0.2 percent of total billing.

MS. BLACKMORE: Thank you. I don't believe I have any further questions for the witnesses.

CHAIRMAN GETZ: Ms. Amidon.

MS. AMIDON: Thank you. I am going to turn questions over to Mr. Mullen, with your permission.

CHAIRMAN GETZ: Okay.

MR. MULLEN: Good morning.

CROSS-EXAMINATION

BY MR. MULLEN:

Q. For purposes of refreshing everyone's memory, why did we agree to do a Reliability Enhancement Program? What were the causes behind that?

A. (McDonough) There was a drop off in reliability performance after 2004. And, 2000 -- you know, the reliability metrics deteriorated in 2005 and 2006. And, that, you know, obviously created a lot of concern

for the Company, and we wanted to address that.
Q. Now, this is a five-year plan, is that correct?
A. (Altenburger) Yes.
A. (Laflamme) Yes, that's correct.
Q. And, so, the purpose is generally to try and get the reliability statistics back to a better performance level?
A. (McDonough) Exactly.
Q. And, in the May 15th filing, which was also attached to Mr. Laflamme's testimony, you reviewed the different types of activities that were performed. And, these are also consistent with the activities that were listed in the Settlement Agreement in the merger, which I believe was attached to Exhibit 2. That's the McDonough/Altenburger testimony. I think that's -- the listing of the activities are on Pages 70 through 72 of Exhibit 2?
A. (Laflamme) I believe that's correct, yes.
Q. One of those, and there was some discussion about it earlier today, was feeder hardening. Could you just explain exactly what is meant by "feeder hardening"?
A. (Altenburger) Okay. Well, earlier in my testimony I explained how we rank feeders for the program. And, then, once we decide which feeders to work on, we send

inspectors in the field and they identify items to be corrected. And, you know, a good list of items that would be corrected is actually shown in Exhibit 2, Table 1. So, what we're doing is we're installing animal guards on equipment, such as transformers. We're correcting bonding and grounding issues, which helps lightning performance. We're replacing or correcting deficiencies, such as broken braces, deteriorated poles, deteriorated crossarms. Also, as part of feeder hardening, we are replacing all the potted porcelain cutouts. Those have been found to be an item that cause poor reliability performance. We've also got correct guy situations, replace insulators. And, that's some of them.

Q. Okay. You just referred to Exhibit 2 to your testimony.

A. (Altenburger) Yes.

Q. That's a copy of a discovery response, is that correct?

A. (Altenburger) Yes. Sorry.

Q. Okay. In that response, you list the -- like, if you look at Table 1, for the Pelham Sub, you list what you expected called the "designed quantity", and then there's the "as-built quantity". On the previous page, there's the text of the response. And, could you just kind of go through some of the things you learned from going through this, this feeder hardening program this year, and how you're going to take those lessons forward?

A. (Altenburger) Well, the major reason for the discrepancy is, when we perform our inspection, we're sending folks out and they're reviewing -- they're assessing the condition of the pole from the ground. And, the biggest reason why you may see an increase is that, you know, once a lineman is up in the air, then he gets a different viewpoint, and he may end up finding issues that a person on the ground just could not see, such as cracked insulators or split crossarms. So, that's typically the reason why you would see an increase after the fact. Does that answer your question, I'm sorry?

Q. Yes. And, there was also -- there was also some issue in terms of when you figured the budget for it, there was something about the removal costs?

A. (Altenburger) Yes. Overall, for the entire CapEx program, our budgeting process focuses on the installation costs, and then the cost of removal is set aside as a percentage. I mean, we account for it, but we don't focus on it for every individual project. So,

when this settlement was made, and the Engineering Departments were informed we had $950,000 in capital to spend, basically, we made an assumption that was the installation cost. And, that was not rectified until we made the filing. And, we are going to correct for that in FY '09.
Q. Now, have you identified additional feeders that you'll be hardening?
A. (Altenburger) Yes, we'll be working on two feeders in FY '09. And, we'll continue for at least two more years.
Q. Flipping about three pages further into your attachments to your testimony, there's a response to Staff 1-4.
A. (Altenburger) Okay. Yes.
Q. This shows a difference, basically, you increased -- you installed more reclosers and more cutouts, more cutout replacements than you had expected. Could you just briefly describe what reclosers and cutouts are and how they are important to the reliability process? In terms of, basically, what I'm trying to get at is, why, if you spent more and did more, that's not a bad thing.
A. (Altenburger) Okay. With reclosers, reclosers allow us

to sectionalize a feeder. So, a feeder is a radial electric line, and it branches off into the various area to cover all our customers. And, by the installation of reclosers, we can basically sectionalize the overall feeder, such that, if a fault occurs at the remote end, we only affect a smaller amount of customers and the remaining customers would stay in service.

Now, a recloser is a, you know, it's a pretty expensive device, and we only use it sparingly, let's say, on feeders. And, cutouts are actually devices that contain a fuse. And a fuse performs the same function. You know, the fuse protects a section of the line from faults. And, again, we're trying to minimize the number of customers affected. And, in this case, for cutout replacements, as I mentioned earlier, potted porcelain cutouts are known to us to be not reliable, they fail in service. And, so, we're making a concerted effort to replace all of them. So, by increasing the number, we're hoping to improve our performance.

Q. And, the sooner you do them, the sooner the reliability improves related to those?

A. (Altenburger) That's correct.

Q. Now, in accordance with the settlement, in terms of how the REP and VMP Programs were set up for rate recovery purposes, for Fiscal Year 2008, the O&M and capital portions were effectively capped, at least for purposes of rate recovery?
A. (Laflamme) That's correct.
Q. So, even though you spent more than budgeted for both capital and O&M, it wasn't a matter of the Company saying "Oh, we're only going to get so much rate recovery. We've got to stop now." You did what you needed to do for purposes of ensuring a reliable system?
A. (Laflamme) That's correct.
Q. Mr. Laflamme, you mentioned earlier that future years' O&M and capital amounts you put into your schedules for illustrative purposes only?
A. (Laflamme) Purely for illustrative purposes, that's correct.
Q. How could those change?
A. (Laflamme) Well, actually, there are two, two reasons they could change. We could, in February of a subsequent fiscal year, propose a plan, with Staff and intervenors, that would suggest amounts greater than that. For instance, as those schedules indicated, and

I mentioned earlier, for years prior -- I mean subsequent to Fiscal '09, I maintained the amounts of the original merger settlement. So, it's 1,360,000 for O&M and $500,000 for capital. There is an opportunity for the Company to come back in, well, and, in fact, we did in February of 2009, came in and sat down with the interested parties and agreed to a cap of 1,473,000 for O&M. So, that's one reason that the number changed in '09. And, it could change again in subsequent fiscal years.

The other thing, obviously, that would affect that is what the Company actually spends. As I mentioned before, the plan reviewed and agreed to in February is just that, it's a plan. The Company must then go out and actively perform on that plan, and, hopefully, you know, meet the targets. And, I think, based on the performance in the first year, it's clear to see that the Company is committed to this program. And, as Dr. McDonough mentioned earlier, you know, reliability is taken very seriously by National Grid, and our intent is to improve that.

A. (McDonough) Just to expand on that a little bit. The increase from 1.36 million to the 1.47 million included an extra $100,000 to be spent on augmented tree trimming. So, after the year was done, we looked at it closely and said "you know what, we think we could stand to do more in this area, and that money would be well spent." So, that's why it was factored into our February filing, and agreed to by Staff.

Q. You must have read my mind, because I was just going to ask about that. Could you just expand a little bit about what is "augmented tree trimming", compared to what you normally do?

A. (McDonough) I'm going to pitch that over to our tree trimming expert.

A. (Carney) "Augmented tree trimming", which is also known at the Company as "Enhanced Hazard Tree Mitigation", is a program where we've gone beyond what we would consider to be obvious hazards, hazard trees in the field, such as dead trees. We have an outside contracted group that actually does more assertive tree inspections and detects the not-so-obvious potential hazards, and seeks to get permission from property owners to remove those trees that may, in fact, fail under moderate to more severe weather conditions. So, we've implemented that across our system, in both New York and New England, with fairly good results.

Q. In terms of your regular trimming, how many miles do you trim -- of circuits do you trim in a typical year?

A. (Carney) We trim 20 percent of our overhead line miles, which is equivalent to approximately 175 to 180 miles per year.

Q. So, that's pretty standard each year?

A. (Carney) Yes.

Q. Bear with me for a minute. And, if we were looking at Attachment 1, Page 2, of Mr. Laflamme's testimony, basically, I'm focusing again on the $1.47 million of O&M spending. As you mentioned, you came in, met with Staff, and there was an additional amount agreed to, a lot of which dealt with augmented tree trimming. That amount is still subject to, and any rate recovery related to that, is subject to Commission review and approval at this time next year, is that correct?

A. (McDonough) Yes.

Q. And, I think Attorney Blackmore asked "What happens if you spend less than that?" What happens if you spend more than that?

A. (Laflamme) If we spend more than the 1.473 million, it's on our nickel. Just as the amount was above the 1.9 -- well, above the 1.950 for this fiscal year.

Q. And, if you turn to your Attachment 2, Page 1. On Line 2, you've got the forecasted base distribution revenue.

A. (Laflamme) I'm sorry, this is Attachment --
Q. Attachment 2 to your testimony.
A. (Laflamme) Okay.
A. (McDonough) Attachment 2, Page 1?
Q. Yes.
A. (Laflamme) Okay. So, that's Attachment 2 of the May 15th filing, Steve?
Q. Attachment 2 of -- yes, that's correct.
A. (Laflamme) Okay.
Q. This Page 1 shows how you determined the percentage of adjustment to distribution rates?
A. (Laflamme) That's correct. Line 1 represents the amount that was summarized in Attachment 1 of the May 15th filing.
Q. And, the amount on Line 2, the $21.9 million, is actually calculated on Page 2 of that attachment?
A. (Laflamme) That's correct.
Q. You have Footnote (b) at the bottom, it says "Company Forecast". How often does the Company do its sales forecast and how recent is this information?
A. (Laflamme) I believe we do the -- the sales forecast is done annually. My expectation is that that is our most current forecast, although I can't completely verify that. But I would expect that that's our most current

forecast.
Q. Okay. And, finally, turning back to Page 1, the percentage on Line 3 is what's carried forward to Page 3 of that attachment?
A. (Laflamme) That's correct. That's the percentage increase that was applied to all of the billing rates for each billing determinant in each of the classes.
Q. And, that's done uniformly across all rates and classes?
A. (Laflamme) That's correct?
MR. MULLEN: Thank you. I have nothing further.
BY CMSR. BELOW:
Q. Just out of curiosity, what are the potted porcelain cutouts replaced with?
A. (Altenburger) They're replaced with a polymer. It's -- you know, well, porcelain is basically glass, and they tend to crack. And, the polymer is -- it's a different type of material that just can stand up to the weather.
Q. And, does that hold the fuse that is in line?
A. (Altenburger) That is correct.
CMSR. BELOW: Okay. Thank you.
CHAIRMAN GETZ: Any redirect, Ms. Blackmore?

REDIRECT EXAMINATION

BY MS. BLACKMORE:

Q. I just wanted to clarify, I think Mr. Laflamme said something about "Fiscal Year" -- or "February '09", regarding our most recent plan with Staff for Fiscal Year '09. We made -- I believe we submitted to Staff in February of '08 for our Fiscal Year '09 plan, is that correct?

A. (Laflamme) If I got the dates wrong when I said that, that is absolutely correct.

MS. BLACKMORE: Okay. Thanks. I have nothing further.

CHAIRMAN GETZ: Okay. Then, there appears to be nothing further for these witnesses. You're excused. Thank you very much.

WITNESS LAFLAMME: Thank you.

CHAIRMAN GETZ: Is there any objection to striking identifications and entering exhibits into evidence?

MS. BLACKMORE: No.

CHAIRMAN GETZ: They will be admitted into evidence. Anything else to consider, before we provide the opportunity for closings?

(No verbal response)

CHAIRMAN GETZ: Hearing nothing, then, Ms. Amidon.

MS. AMIDON: Thank you. Staff supports the rate adjustment that the Company is proposing today. It's consistent with the Settlement Agreement. And, it was anticipated that they would be making capital improvements in connection with their Reliability Enhancement and Vegetation Management Programs. The ongoing activities, obviously, will be subject to review and determining whether or not how the money was spent, whether it was spent appropriately, but we recommend that the Commission approve this petition.

CHAIRMAN GETZ: Okay. Thank you. Ms. Blackmore.

MS. BLACKMORE: Thank you. We're respectfully requesting that the Commission approve the capital investment allowance to become effective for usage on and after July 1st. We believe that the Company has complied with the requirements of the Merger Settlement Agreement for implementation of the REP and VMP Programs for Fiscal Year 2008. And, that we have demonstrated a good faith effort to improve the Company's reliability performance. Thank you.

CHAIRMAN GETZ: Okay. Thank you. Then,

we'll close the hearing and take the matter under advisement. Thank you, everyone.

(Whereupon the hearing ended at 11:29 a.m.)